management focus

essential management knowledge for today's leaders

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A strategic approach to managing a downturn

An interview with:
Sydney Finkelstein, Jo Whitehead and Andrew Campbell

Emerald

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Welcome to our new-look Management Focus

… and welcome to the March/April issue.

Periods of strong economic growth are usually followed by periods of correction. The economic landscape has become harsher and the darker side of prosperity is now starting to reveal itself.

In a credit crunch environment it can be all too easy for external factors and concerns to drain the positive energy that forms the powerhouse of a successful organization. Leadership energy can be directly linked to customer satisfaction, absenteeism, turnover, employee energy levels and, therefore, bottom-line results.

The ability to boost energy in the workplace provides significant competitive advantage by helping to retain and motivate staff. Find out more in our featured article.

Why do smart and experienced leaders make flawed, even catastrophic, decisions? Why do people keep believing that they have made the right choice, even when disastrous results stare them in the face? And how can you be sure you're making the right decision – without the benefit of hindsight?

Read our interview with Sydney Finkelstein, Jo Whitehead and Andrew Campbell to find out what "red flags" to look out for that can lead to errors of judgement. Also, discover what they have to say about their new book, *Think Again: Why Good Leaders Make Bad Decisions and How to Keep it from Happening to You*.

Finally, how can we manage employees pushing for complete freedom of choice and personalization? Find out in this issue of *Management Matters* where you can get some practical advice from Don Tapscott's "Talent 2.0."

Remember, to expand on the topics highlighted in *Management Focus*, log on to our website at **http://first.emeraldinsight.com** where you will find an extensive collection of articles, interviews and executive summaries.

Best wishes,

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A strategic approach to managing a downturn

Periods of strong economic growth are usually followed by periods of correction. The economic landscape has become harsher and the darker side of prosperity is now starting to reveal itself.

But organizations can not only survive the effects of the downturn, they can come out at the other end fitter and leaner, quickly able to adapt to new market conditions and thrive. The key is to switch mindsets and get used to an altogether different commercial environment.

Reorganization strategies

Some companies are responding to the current climate by reorganizing. However, reorganization can be a great way of creating an illusion of progress while producing only confusion, inefficiency and demoralization. Broadly speaking, there are four options for downsizing or restructuring:

1. Examine whether or not the business can outsource some of its processes to reduce costs or avoid the cost of restructuring.

2. Redesign work, making better use of information systems and reducing duplication – in other words: changing how people and resources are configured.

3. Keep the current organization configuration, while reducing the number of people undertaking each task. But this is less likely to deliver the greatest savings and more likely to increase demoralization.

4. The “ask for volunteers” route. This scores high on staff acceptability and low on demoralization, but also high on confusion and inefficiency.

Many process reengineering projects are rigorous. They take time and resources to get right. However, few such programmes fully deliver the objectives intended at the outset.

Staff engagement

There is another dimension to all this reorganization – which is how we engage and involve staff in the way in which work will be carried out in the future. Here, we have a difficult dilemma. Most of us will accept that the greater the degree of engagement staff have, the better. But there are two drawbacks:

1. time – it may just take too long; and

2. if significant cost reductions are required, it may follow that staff will actually engage in eliminating their own job and those of their colleagues.

So how can one choose between these different architectures of change? There is no right answer. It all depends on the situation you face and the risks you are prepared to take for the benefits.

Trust is a must

The importance of trust can be vastly underestimated in organizations, especially during times of uncertainty.

This is one mistake a US multinational with a UK subsidiary going through a tough time was not prepared to make. A downturn in demand for its software meant a need to downsize, with many UK jobs at stake. Yet this company’s leaders kept the issue of trust at the forefront of their minds. Staff not only were informed about the potential layoffs, but also were encouraged to nominate representatives to negotiate with management on their behalf to find a way to mitigate the impact of the redundancies. Management actively listened to and evaluated the proposals put forward to them and even accepted some of the proposals, including the offer of voluntary redundancies.

The result of management taking this process seriously rather than just going through the motions was that a number of compulsory redundancies were avoided and the remaining staff, who are often the forgotten victims of such processes, felt that the situation had been handled in a fair and consistent manner. Most importantly, management was able to retain the trust of employees throughout the downsizing exercise and morale was quickly restored.

“The importance of trust can be vastly underestimated in organizations, especially during times of uncertainty.”

Positive vibes

Once this trust is established, organizations are in a much stronger position to harness their people power. In a credit crunch environment it can be all too easy for external factors to generate uncertainty and to drain the positive energy and enthusiasm that form the powerhouse of a successful organization. With financial turmoil creating negative energy the leadership task becomes much more difficult. Whether at an individual or ateam level, the ability to boost energy in the workplace provides significant competitive advantage by helping to retain and motivate staff.

A study from the University of Michigan Business School has found a clear link between leaders’ energy levels and the rest of an organization’s employee population, thereby affecting productivity and the bottom line. Furthermore, early indications suggest that leadership energy levels can significantly impact areas such as absenteeism, turnover and customer satisfaction.

Do not panic

Another trait that successful organizations share, which helps them through the tough times, is that they do not panic. They avoid laying people off,

> “*Organizations need to consciously look at how they can retain existing talent and reduce the risk of losing the capability and skills they will need to maximize the opportunities that will present themselves when the market picks up again.*”

cutting funding or reducing investment in core parts of the business unless it is absolutely necessary.

Apple Computer is a case in point. Talking about the current downturn, Steve Jobs, Apple’s CEO, commented:

“We’ve had one of those before when the dot.com bubble burst. What I told our company was that we were just going to invest our way through the downturn, that we weren’t going to lay off people, that we’d made a tremendous amount of effort to get them into Apple in the first place – the last thing we were going to do was lay them off. And we were going to keep funding. In fact, we were going to up our R&D budget so that we would be ahead of our competitors when the downturn was over. And that’s exactly what we did. And it worked. And that’s exactly what we will do this time”.

One of the more common misconceptions around lean is that it results in lay-offs. In fact organizations that have truly adopted the management philosophy of lean understand that jobs should not be cut unless absolutely necessary.

Toyota, which is a name that is synonymous with lean, successfully applied this philosophy following the economic downturn that followed the terrorist attacks of 9/11. While acknowledging that its workforce was too large for the market conditions at the time, Toyota chose not to wield the axe. Instead, production staff were seconded to a service improvement team working on projects that would improve efficiency once demand picked up again. When this happened, staff were moved back over to production. Perhaps unsurprisingly, as of 2007 this particular part of Toyota had a six-month waiting list for staff wanting to join.

Building commitment to improvement

So, while lean techniques can be used to make cuts, we must be careful to separate the tool from its uses, and its techniques from its philosophies. Using lean techniques to make job cuts actually destroys one of its most fundamental tenets – that employees must be committed to continuous improvement and perform tasks as efficiently as possible. So, if you apply lean to make job cuts, you sacrifice any future attempt to involve employees in the drive to remove waste.

Remember, too, that, while some talent is inevitably lost through downsizing, other employees choose to leave their jobs, and attracting that talent back will be harder when the market picks up. Organizations need to consciously look at how they can retain existing talent and reduce the risk of losing the capability and skills they will need to maximize the opportunities that will present themselves when the market picks up again.

So, while the current downturn will certainly be a challenge, it also provides an excellent opportunity to take stock, analyse and deal with the areas that need redress and, more importantly, build capability in advance of the competition.

This is a shortened version of “A strategic approach to managing a downturn”, which originally appeared in *Strategic HR Review*, Volume 8 Number 1, 2009.

The author is Mark Goodridge.

Think Again: an interview with

Sydney Finkelstein, Jo Whitehead and Andrew Campbell

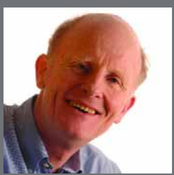
Interview by Debbie Hepton

Sydney Finkelstein is the Steven Roth Professor of Management at Dartmouth's Tuck School of Business and Director of the Tuck Executive Programme.

He is the author of more than ten books, including international bestseller, *Why Smart Executives Fail*. Sydney is widely known as one of the world's leading authorities on strategy and leadership.

Jo Whitehead, MA, MBA, PhD, is a Director of Ashridge Strategic Management Centre.

Before joining Ashridge, Jo was a Vice President and Director of the Boston Consulting Group (BCG). He worked in the London, Los Angeles and Atlanta offices and acted as BCG's Director of Energy Research and Marketing.



Andrew Campbell, BA, MA, MBA, is also a Director of Ashridge Strategic Management Centre.

He is co-programme director of Group Level Strategy, Strategic Decisions and Making Successful Acquisitions. Andrew has authored ten books based on his research and has also published numerous articles including six with the *Harvard Business Review*.

DH: Can you tell us about the inspiration behind *Think Again*?

Jo: I spent much of my career as a consultant analyzing strategic decisions on the basis of hard facts and analysis. On the other hand, my personal experience and my PhD persuaded me that all sorts of other factors affected my judgement and that of my clients. All the facts and analysis in the world are not enough to guarantee a good decision! And yet, we often treat decisions as if they are purely a problem of analysis. So, I wanted to find out whether there was something useful to say about how we actually make decisions – and how to avoid errors of judgement.

Sydney: Having completed *Why Smart Executives Fail* a few years ago, it seemed clear that what we didn't have a handle on is the guts of decision making. Decisions are the lifeblood of organizational life, as well as central to how all of us conduct our lives. There are few more important topics, and the time was right.

Andrew: In the early 2000s I was researching growth initiatives: specifically how companies develop new growth platforms. This research made me realize that a lot of growth strategies are deeply flawed. I therefore wanted to understand how capable managers can convince themselves that they are right when they are wrong.

DH: The book focuses on four "red flag" conditions that can lead to errors of judgement. Which is the most dangerous of these four flags, and why?

Jo: Any of them can be very dangerous! I can answer by suggesting what types of red flags are most dangerous. The first thing to consider is, how big is the distortion created? For example, Dick Fuld, CEO of Lehman Brothers, appears to have had some red flags that led him to refuse offers by other banks to invest in Lehman Brothers. In September 2008, that led to the bankruptcy of Lehman and its complete destruction. The second issue is, how strong are the emotional tags associated with those red flags? Dick Fuld had been at Lehman's for 30 years and brought them back from the brink of bankruptcy before. So, he would have had some pretty strong emotions associated with his decision to try and stick it out on his own. Any of the red flags can lead to big, emotional distortions.

Andrew: We are all blessed with and hampered by our experiences, pre-judgements, self-interest and attachments. So the question is really, which of these is most frequently misleading or inappropriate? And the answer is that it all depends. In our sample of 83 bad decisions, prejudgements came out as the most common cause (68 per cent) and attachments the least common (36 per cent).

DH: To quote your book: "To RBS, 'analysis paralysis' is a worse sin than acting quickly on a decision, even if the action needs to be adjusted later or has to be abandoned altogether." Considering the difficulties currently facing financial institutions around the world, can a policy of quick decision making ever be prudent and advisable?

Jo: We wrote the RBS example well before the recent crisis – so, I guess that is a good illustration of the danger of having a culture in which trusting your gut instinct becomes a way of making all decisions. However, quick decision making is prudent if you are confident that the decision maker has appropriate experience and prejudgements, and has attachments and personal interests that will not interfere with making the right decision. We expect this to be true of many decision makers and many decisions – traders, firemen, pilots, Grand Masters at chess … they all make important decisions quickly. We would not have wanted the pilot of the plane that landed in the Hudson to have asked for approval for his actions from the Board of US Airways!

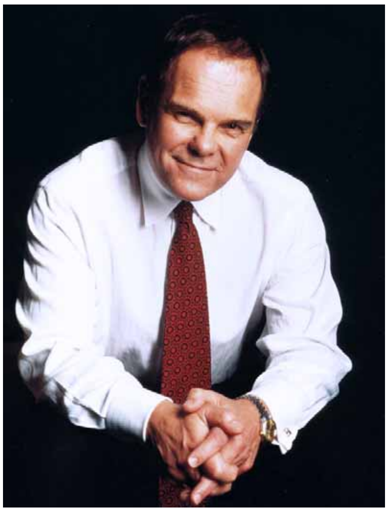
On a related issue, we also appoint leaders partly because of their prior experience. We trust their gut instinct more than that of other potential candidates. So, gut feelings are a valuable tool in decision making – not something that we should or can cut out of the process. In fact Andrew is writing an article on "When to trust your gut instinct" to address this very point.

Andrew: One of the dangers of the current crisis is that we lose faith in all leaders and require every decision to go through three levels of review and be supported by four consultants' reports. This will just bog down our organizations and kill initiative. What we are proposing is that many decisions need less process, less bureaucracy and less governance (here we agree with the RBS culture): but some decisions need many more safeguards (Sir Fred Goodwin's decision to pay around £50 billion for ABN Amro, for example).

To read a longer version of this interview visit http://first.emeraldinsight.com

Management Matters

Incisive commentary on topical business issues



Tomorrow's employee today?

It is fast becoming something of a fatigued observation that computing and the Internet have transformed business like no other development in the last century. However, e-business remains a hot topic for good reason. Back in 2000, *E-Business to the Power of 12: The Principles of Competition* stated that ignoring the net "could cost the life of your company". Those words still ring true. Companies, markets and customer behaviour have all changed markedly as a result.

But, while impressive examples abound of the benefits gained from implementing e-commerce websites, e-supply chains, customer relationship/knowledge management systems and so on, there is far less evidence available about how new technologies have instilled themselves in the psyche of the modern employee and helped to almost subliminally change working attitudes forever.

Step in Don Tapscott – an internationally sought authority, consultant and speaker on organizational transformation. Tapscott invested $4m in a detailed study of the "Net Generation" and what makes today's pool of workers so different. "They prize freedom, and freedom of choice", he states in an interview with Emerald. "They want to customize things, make them their own. They're natural collaborators who enjoy a conversation, not a lecture. They'll scrutinize you, and your organization. They insist on integrity – being honest, considerate, and transparent, and living up to your commitments. Speed is just normal. Innovation is part of life."

Such statements probably strike fear into many managers reading this column. After all, how on earth can we manage employees pushing for complete freedom of choice and personalization? Tapscott is well aware of these fears, admitting that the new breed of employee can be "challenging to manage". Then he strikes at the crux of the issue: "Organizations must alter their culture and management approaches, while continuing to respect the needs of older employees."

And there we have a classic example of a statement simple to make on paper, but daunting to tackle in the real world. Thankfully, Tapscott offers some practical advice in what he brands "Talent 2.0":

- **Re-think authority:** be a good leader (e.g. coach, mentor, facilitator, enabler), but understand that in some areas you will be the student and the Net Gen employee will be the teacher.
- **Rethink recruitment:** initiate relationships. Don't waste money on advertising for talent. Use social networks based on trust to influence young people about your company.
- **Rethink training:** engage for lifelong learning. Rather than traditional training programmes that are separate from work, look to strengthen the learning component of all jobs.
- **Don't ban Facebook or other social networks:** figure out how to harness them. New tools like wikis, blogs, social networks, RSS feeds and so on can be the heart of the new high performance workplace. Re-think management processes and design jobs and work for collaboration. Give the Net Gens a chance to put collaborative tools to good use.

Tapscott's ideas certainly warrant further investigation, considering the startling fact that at present one third of new employees begin investigating alternative employment options within six months of being hired. Can your company afford not to be listening?

If you would like to know more about what Don Tapscott has to say about organizational transformation please visit http://first.emeraldinsight.com

Final thought …

"Your success in life isn't based on your ability to simply change. It is based on your ability to change faster than your competition, customers and business."

Mark Sanborn